

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SAM-01 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 7746

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L LISBON 4547

PASS TREASURY DEPARTMENT, DONALD E. SYVRUD

E.O. 11652: GDS

TAGS: EAID, EFIN, PO, ECON

SUBJECT: PORTUGAL'S REQUEST FOR INTERNATIONAL CREDITS

REF: LISBON 4455

1. ECON/COMMERCIAL COUNSELOR MET JULY 6 WITH BANK OF PORTUGAL PRESIDENT SILVA LOPES AT LATTER'S REQUEST. DISCUSSION CENTERED AROUND RECENT VISIT OF DONALD E. SYVRUD AND POSSIBILITY OF U.S. G. LOAN.

2. IN RESPONSE TO SILVA LOPES' QUESTION, ECON COUNSELOR STATED THAT SYVRUD'S VISIT WAS PROMPTED BY WASHINGTON'S SYMPATHETIC ATTITUDE TOWARD PORTUGAL'S REQUEST FOR A USG LOAN. FINAL DECISION ON THE LOAN REQUEST WOULD DEPEND SUBSTANTIALY ON SYVRUD'S CONCLUSIONS. IN EFFECT, HOWEVER, A LOAN MIGHT BE EXTENDED ONLY IF PORTUGAL ADOPTS A COHERENT ECONOMIC DEVELOPMENT PROGRAM. IT WOULD NOT BE FORTHCOMING SIMPLY
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TO FINANCE CURRENT BALANCE OF PAYMENTS DEFICIT. SILVA

LOPES ACCEPTED THIS STATEMENT WITHOUT COMMENT, BUT INDICATED HE UNDERSTOOD OUR POSITION. HE SUBSEQUENTLY ASSERTED THAT NEW GOP ADMINISTRATION WOULD NOT BE PREPARED TO DISCUSS ITS GLOBAL ECONOMIC PROGRAM BEFORE AUGUST OR SEPTEMBER.

3. SILVA LOPES THEN INQUIRED ABOUT SYVRUD'S MAJOR OBSERVATIONS. ECON COUNSELOR RESPONDED THAT SYVRUD HAD NOT CONCLUDED HIS REPORT BEFORE LEAVING PORTUGAL. NEVERTHELESS, HIS REPORT WOULD LIKELY RECOMMEND SUBSTANTIAL INCREASES IN INTEREST RATES, MAJOR DEVALUATION OF ESCUDO, CURTAILMENT OF BUDGET DEFICIT, AND FIRM WAGE/PRICE POLICY. SILVA LOPES CONCURRED IN PRINCIPLE WITH THESE SUGGESTIONS, BUT NOTED THAT THEY WOULD BE POLITICALLY DIFFICULT TO IMPLEMENT. EVEN IF THEY WERE ADOPTED, HE BELIEVES, PORTUGAL WOULD STILL HAVE TO INSTITUTE SOME RESTRICTIVE TRADE MEASURES.

4. SILVA LOPES ASKED WHETHER A USG LOAN, IF FORTHCOMING, WOULD BE LINKED TO A GOP STAND-BY AGREEMENT WITH IMF. ECON COUNSELOR STRESSED THAT HE COULD NOT PROVIDE OFFICIAL RESPONSE TO THIS QUESTION. HE COMMENTED, ON A PURELY PERSONAL BASIS, THAT AN OPTIMAL ARRANGEMENT WOULD PRESUMABLY BE A COMPOSITE PACKAGE WHICH INCLUDED AN IMF STAND-BY. GOP COULD THEN DRAW FIRST AGAINST IMF FOR ITS LIQUIDITY REQUIREMENTS AND, SUBSEQUENTLY, AGAINST BILATERAL LOANS SHOULD THAT PROVE NECESSARY. IN ANY CASE, FINAL ARRANGEMENT WOULD DEPEND UPON PRESENTATION OF GOP DEVELOPMENTAL PROGRAM AND A DECISION IN WASHINGTON.

5. SILVA LOPES CONFIRMED THAT BANK OF PORTUGAL IS NEGOTIATING A THIRD \$250 MILLION GOLD-SECURED LOAN FROM THE BIS. HE APPARENTLY HAS NO DOUBT THAT BIS WILL GRANT THIS LOAN.

5. COMMENT: SILVA LOPES AND OTHER LEADING GOP ECONOMISTS APPEAR TO UNDERSTAND THE NEED FOR ECONOMIC REFORMS. THEY WOULD PROBABLY DIFFER SOMEWHAT OVER DETAILS, BUT NOT OVER THE BASIC POLICY RECOMMENDATIONS FOR A DEVELOPMENTAL PROGRAM.
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7. EMBASSY WOULD APPRECIATE KNOWING PRESENT STATUS OF WASHINGTON DISCUSSIONS ON GOP LOAN REQUEST. WE BELIEVE USG SHOULD BE PREPARED TO RESPOND FAVORABLY WHEN GOP PRESENTS ITS REFORM/DEVELOPMENTAL PROGRAM. WE WILL SEE GERMAN AMBASSADOR NEXT WEEK TO BRIEF HIM ON OUR DISCUSSIONS AND TO ASCERTAIN WHETHER HIS GOVERNMENT MIGHT PARTICIPATE IN A TRIANGULAR LOAN PACKAGE.

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